



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the **20th day of March, 2003**

Essential Air Service at

GULKANA, ALASKA

under 49 U.S.C. 41731, *et seq.*

Served: March 26, 2003

DOCKET OST-1995-492

Essential Air Service at

**MAY CREEK AND
MCCARTHY, ALASKA**

under 49 U.S.C. 41731, *et seq.*

DOCKET OST 1996-2009

**ORDER TENTATIVELY SELECTING CARRIER
AND SETTING SUBSIDY RATE**

Summary

By this order, the Department is tentatively reselecting Ellis Air Taxi, Inc., to provide essential air service at Gulkana, May Creek and, McCarthy, Alaska, for the two-year period from February 1, 2003, through January 31, 2005, at a combined annual subsidy of \$231,101.

Background

By Order 2001-5-3, May 4, 2001, the Department selected Ellis Air to provide essential air service at Gulkana, May Creek and McCarthy, Alaska, consisting of two nonstop round trips a week between Gulkana and Anchorage, with 4-seat Cessna 310 aircraft, and two round trips a week over a Gulkana-McCarthy-May Creek-Gulkana routing, with 4-seat Cessna 206 aircraft during the summer months, and with 3-seat Cessna 185 aircraft during the winter months. An annual subsidy rate of \$93,131 was set for the Gulkana-Anchorage service, and an annual



subsidy rate of \$59,188 was set for the Gulkana-McCarthy-May Creek-Gulkana service. The carrier's rate term expired January 31, 2003.

As is our normal custom when nearing the end of a carrier's rate term, we contacted the carrier to determine whether it was interested in continuing service at the community and whether it would continue to require subsidy. If the carrier wishes to continue service with subsidy, we usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting the carrier for a new two-year rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order. If any such proposals are filed, we process them as a competitive case. Consistent with that practice, we invited Ellis Air to submit a proposal for continuation of essential air service at Gulkana, May Creek and McCarthy.

Carrier Proposal

Ellis Air submitted a proposal to provide essential air service at all three communities for a new two-year rate term. The carrier proposes to continue to provide the communities with their historical service levels in all respects: frequencies, aircraft types and routings. Gulkana would continue to receive two nonstop round trips to Anchorage each week with 4-seat Cessna 310 aircraft; May Creek and McCarthy would continue to receive two round trips each week over a Gulkana-McCarthy-May Creek-Gulkana routing with 3-seat Cessna 185 during the 6-month winter season, and 4-seat Cessna 206 aircraft during the 6-month summer season. Ellis Air and the staff have agreed to annual subsidies of \$137,741 for service at Gulkana and \$93,360 for service at May Creek and McCarthy.

Tentative Reselection

Ellis Air continues to provide Gulkana, May Creek and McCarthy with reliable essential air service and we find that both the service and subsidy levels are reasonable. In view of the above, we will tentatively reselect Ellis Air to provide essential air service to these communities, as set forth above, for an additional two-year period beginning February 1, 2003, and ending January 31, 2005.

Responses to Tentative Decision and Competing Proposals

As usual, we will allow interested parties 20 days from the date of service of this order to file objections or competing proposals in this case. In no timely objections or competing proposals are filed, this order will automatically become final. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague or unsupported objections.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each applicant to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with the Department staff before we seek final community comments. We will give full consideration to all proposals that are filed in a timely manner. Of course, as

always, we will formally solicit the community's views on any service options we receive before making a long-term carrier selection decision.

Competing proposals for Gulkana should contemplate service to Anchorage or any other appropriate hub city. Proposals for May Creek and McCarthy should contemplate service to Gulkana, consisting of at least two round trips each week. In order to help carriers in their passenger and revenue forecasts, we have included historical traffic data in Appendix C.

Procedures for Filing Replacement Proposals

For interested carriers unfamiliar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f), and discusses in detail the process of requesting proposals, conducting reviews of applicants, and selecting a replacement carrier. The second is an evidence request containing an explanatory statement, a copy of Part 204 of our regulations (14 CFR 204), and schedules setting forth our recommended form for submitting data required for calculating compensation and determining the financial and operational ability of applicants to provide reliable essential air service. (Section 204.4 describes the fitness information required of all applicants for authority to provide essential air service.) Applicant carriers that have already submitted this information in another case need only resubmit it if a substantial change has occurred. However, if there are more recent data or if there have been any changes to the information on file, carriers should provide updates of those information elements. Interested carriers that need to obtain copies of these documents may contact the Office of Aviation Analysis at (202) 366-1053.

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.¹ Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the contract must also certify that they are in compliance with the regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals.² Interested carriers requiring more detailed information regarding these requirements as well as copies of the certifications should contact the Office of Aviation Analysis at (202) 366-1053.

¹ The regulations applicable to these areas are (1) 49 CFR Part 20, New Restrictions on Lobbying; (2) 49 CFR Part 21 – Nondiscrimination in Federally-assisted programs of the Department of Transportation – Effectuation of Title VI of the Civil Rights Act of 1964; 49 CFR Part 27 – Nondiscrimination on the basis of disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 – Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29, Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

² Blank certification forms can be found on the Office of Aviation Analysis official website at <http://ostpxweb.dot.gov/aviation/rural/ruralair.htm>

The Department is prohibited from paying subsidy to carriers that do not submit these documents.

Community and State Comments

If we receive competing proposals, the communities and state are welcome to submit comments on the proposals at any time. Early in the proceeding, comments on the proposals' strengths and weaknesses would be particularly helpful, and the civic parties may also express a preference for a particular carrier, if they choose. In any event, after conducting rate conferences with all applicants, we will provide a summary of the conference results to the civic parties and ask them to file their final comments.³

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. We last found Ellis Air fit to provide limited scheduled passenger service as an air taxi by Order 2001-5-3, May 4, 2001. The Department routinely monitors the carrier's operations and no information has come to our attention that would lead us to question its ability to operate in a reliable manner. The Federal Aviation Administration advises that Ellis Air is operating in accordance with its regulations and that it knows of no reason why we should not find the carrier fit. We therefore conclude that Ellis Air remains fit to conduct the operations proposed here.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. We tentatively reselect Ellis Air Taxi, Inc., to provide essential air service at Gulkana, May Creek and McCarthy, Alaska, as described in Appendix A, for the period beginning February 1, 2003, through January 31, 2005;
2. We tentatively set the final rate of compensation of \$137,741 for Ellis Air Taxi, Inc., for the provision of essential air service at Gulkana, Alaska, as described in Appendix A, for the period from February 1, 2003, through January 31, 2005, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix A, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by \$662.22;⁴
3. We tentatively set the final rate of compensation of \$93,360 for Ellis Air Taxi, Inc., for the provision of essential air service at May Creek and McCarthy, Alaska, as described in Appendix A, for the period from February 1, 2003, through January 31,

³ In cases where a carrier proposes to provide essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service as proposed.

⁴ See Appendix B for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

2005, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix A, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by \$224.42;⁵

4. We direct Ellis Air Taxi, Inc., to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

5. We find that Ellis Air Taxi, Inc., continues to be fit, willing and able to provide limited scheduled service, and capable of providing reliable essential air service at Gulkana, May Creek and McCarthy, Alaska;

6. We direct interested parties having objections to the selection of Ellis Air Taxi, Inc., to provide essential air service as described in ordering paragraph 1 above, at the rates set forth in ordering paragraphs 2 and 3 above, to file such objections or competing service proposals no later than 20 days from the date of service of this order;⁶

7. If we receive objections or competing proposals within the 20-day period, Ellis Air Taxi, Inc., will be compensated at the subsidy rates set forth in ordering paragraphs 2 and 3 above as final rates, effective February 1, 2003, until all objections are resolved;

8. We will afford full consideration to the matters and issues raised in any timely and properly filed objections and service proposals before we take further action.⁷ If no objections or competing service proposals are filed, all further procedural steps will be deemed waived and this order shall become effective on the twenty-first day after its service date;

9. Dockets OST 1996-2009 and OST 1995-492 shall remain open until further order of the Department; and

⁵ See Appendix A for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

⁶ Objections should be filed with the Documentary Services Division, SVC-121.30, Room PL401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Proposals to provide essential air service should be filed with the Chief, EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, at the same address. Questions regarding filings in response to this order may be directed to John McCamant at (202) 366-1060.

⁷ Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

10. We will serve copies of this order on the civic officials of Gulkana, McCarthy and May Creek, the Alaska State Department of Transportation and Public Facilities, the Governor of Alaska, Ellis Air Taxi, Inc., and the parties listed in Appendix D.

By:

READ VAN DE WATER
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>*

**ELLIS AIR TAXI, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
GULKANA, MAY CREEK AND MCCARTHY, ALASKA**

<u>Effective Period:</u>	February 1, 2003, through January 31, 2005
<u>Service:</u>	Two round trips each week over the routing Gulkana-Anchorage-Gulkana, with 4-seat Cessna 310 aircraft Two round trips each week over the routing Gulkana-McCarthy-May Creek-Gulkana, with either 3-seat Cessna 185 during the 6-month winter season, or 4-seat Cessna 206 aircraft during the 6-month summer season
<u>Subsidy Rates:</u>	Per year GKN-ANC-GKN: \$137,741 Per year GKN-MXY-MYK-GKN: \$93,360 Per arrival/departure – GKN: \$662.22 ¹ Per arrival/departure – MXY and MYK: \$224.42 ²
<u>Weekly Compensation Ceiling:</u>	Gulkana - \$2,648.88 ³ May Creek and McCarthy - \$1,795.36 ⁴

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ Annual subsidy of \$137,741, divided by the number of arrivals/departures to be performed annually (208).

² Annual subsidy of \$93,360, divided by the number of arrivals/departures to be performed annually (416).

³ The subsidy rate for each arrival/departure (\$662.22) multiplied by the number of scheduled subsidy-eligible arrivals and departures each week (4).

⁴ The subsidy rate for each arrival/departure (\$224.42) multiplied by the number of scheduled subsidy-eligible arrivals and departures each week (8).

ELLIS AIR TAXI, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
GULKANA, MAY CREEK AND MCCARTHY, ALASKA
SUBSIDY NEED CALCULATIONS

	<u>Gulkana</u>	<u>May Creek & McCarthy</u>
Annual Round Trips	104	104
Annual Block Hours	NA ¹	240 ²
Aircraft type	Cessna 310	Cessna 185/206
Revenues		
Passenger	\$18,900 ³	\$12,530 ⁴
Freight	960 ⁵	1,860 ⁶
Mail	<u>--</u>	<u>27,093 ⁷</u>
Total Revenue	\$19,860	\$41,483
Direct Expenses		
Pilot wages (\$94.20/BH)	-	\$22,608
Fuel & Oil (\$72.66/BH)	-	17,438
Insurance (\$85.62/BH)	-	20,549
Maintenance (\$86.96/BH)	-	20,870
Depreciation (\$20.80/BH)	-	<u>4,992</u>
Total Direct Expenses	\$121,576	\$86,457
Indirect Expenses	\$28,520	\$41,965
Total Operating Cost	\$150,096	\$128,422
Profit (5% of T.O.C.)	\$7,505	\$6,421
Total Economic Cost	\$157,601	\$134,843
Annual Subsidy	\$137,741	\$93,360

¹ Ellis wet leases a Cessna 310 from Security Aviation at a cost of \$1,169 per round trip.

² BH = GKN-MXY-MYK-GKN 2.1 hrs/trip x 104 trips/yr. x 1.1 for WX diversions = 204

³ Passengers: 108 @ \$175.00 = \$18,900

⁴ Passengers: 135 MXY @ \$90.00 = \$12,150.00
4 MYK @ \$95 = 380.00
\$12,530.00

⁵ Freight: 1,500 lbs. @ \$.64/lb. = \$960.

⁶ Freight: 3,100 lbs. @ \$.60/lb. = \$1,860.

⁷ Mail: 42,333 lbs. @ \$.64 = \$27,093.

May Creek, McCarthy, and Gulkana O & D Traffic 2001

	<u>1stQ 01</u>	<u>2ndQ 01</u>	<u>3rdQ 01</u>	<u>4thQ 01</u>	<u>Total</u>
<u>Passengers</u>					
May Creek-Gulkana	0	2	2	0	4
Gulkana-May Creek	0	4	0	0	4
	0	6	2	0	8
McCarthy-Gulkana	8	12	26	2	38
Gulkana-McCarthy	8	19	40	6	73
	16	31	66	8	111
Gulkana-Anchorage	7	10	20	4	41
Anchorage-Gulkana	7	10	30	6	53
	14	20	50	10	94
<u>Cargo</u> (pounds)					
May Creek-Gulkana	0	0	45	0	45
Gulkana-May Creek	0	0	0	0	0
	0	0	45	0	45
McCarthy-Gulkana	0	95	70	16	181
Gulkana-McCarthy	497	987	933	884	3,301
	497	1,082	1,003	900	3,482
Gulkana-Anchorage	10	112	120	10	252
Anchorage-Gulkana	173	158	405	288	1,024
	183	270	625	298	1,376
<u>Mail</u> (pounds)					
May Creek-Gulkana	91	71	40	79	281
Gulkana-May Creek	2,248	577	942	1,040	4,807
	2,339	648	982	1,119	5,088
McCarthy-Gulkana	585	934	1,032	682	3,233
Gulkana-McCarthy	7,022	12,165	7,935	6,960	34,082
	7,607	13,099	8,967	7,642	37,315
Gulkana-Anchorage	0	0	0	0	0
Anchorage-Gulkana	0	0	0	0	0
	0	0	0	0	0

May Creek, McCarthy, and Gulkana O & D Traffic 2002

	<u>1stQ 02</u>	<u>2ndQ 02</u>	<u>3rdQ 02</u>	<u>4thQ 02</u>	<u>Total</u>
<u>Passengers</u>					
May Creek-Gulkana	1	0	0		
Gulkana-May Creek	1	0	0		
	2	0	0		
McCarthy-Gulkana	4	15	41		
Gulkana-McCarthy	5	21	41		
	9	36	82		
Gulkana-Anchorage	8	12	28		
Anchorage-Gulkana	5	13	30		
	13	25	58		
<u>Cargo</u> (pounds)					
May Creek-Gulkana	0	0	0		
Gulkana-May Creek	0	0	0		
	0	0	0		
McCarthy-Gulkana	37	3	215		
Gulkana-McCarthy	629	881	824		
	666	884	1,039		
Gulkana-Anchorage	42	14	217		
Anchorage-Gulkana	36	286	467		
	78	300	684		
<u>Mail</u> (pounds)					
May Creek-Gulkana	90	94	0		
Gulkana-May Creek	1,440	786	736		
	1,530	880	736		
McCarthy-Gulkana	636	909	1,564		
Gulkana-McCarthy	5,713	11,002	9,505		
	6,349	11,911	11,069		
Gulkana-Anchorage	0	0	0		
Anchorage-Gulkana	0	0	0		
	0	0	0		

Source: Ellis Air Taxi, Form 298-C

SERVICE LIST FOR THE STATE OF ALASKA

Aaron Air	Hageland Aviation Services, Inc.	Scenic Mountain Air, Inc.
Aero Tech Flight Service, Inc.	Haines Airways, Inc.	Seaside Air Service
Air Excursions	Heli-Lift, Inc.	Security Aviation, Inc.
Air Lift Alaska	Homer Air	Seward Flying Service, Inc.
Air Madura	Hudson Air Service, Inc.	Silver Bay Logging, Inc.
Alaska Airlines, Inc.	Iliamna Air Taxi, Inc.	Skagway Air Service, Inc.
Alaska Bush Carrier, Inc.	Island Air Service	Soloy Helicopters, Inc.
Alaska Central Express, Inc.	Island Wings Air Service	Southcentral Air, Inc.
Alaska Coastal Airlines, Inc.	Jim Air, Inc.	Specialized Air Service
Alaska Fly'N Fish Charters	K2 Aviation	Spemak Airways
Alaska Flyers	Kachemak Air Service, Inc.	Sunrise Aviation, Inc.
Alaska Helicopters, Inc.	Kachemak Bay Flying Service, Inc.	Tamarack Air, Ltd.
Alaska Island Air, Inc.	Katmai Air	Tanana Air Service
Alaska Seair Adventures	Kenai Air Alaska, Inc.	Taquan Air Service, Inc.
Alaska West Air, Inc.	Kenai Fjords Outfitters, Inc.	Tatonduk Outfitters, Inc.
Aleutian Air, Ltd.	Kenair	Temasco Helicopters, Inc.
Aleutian Specialty Aviation	Ketchikan Air Service, Inc.	Totem Air
Allegheny Commuter airlines, Inc.	Ketchum Air Service, Inc.	Trans-Alaska Helicopters, Inc.
Amerijet International, Inc.	Kodiak Air Service	Trans-Porter Alaska, Inc.
Arctic Air Alaska, Inc.	Koyukon Air, Inc.	Tundra Copters, Inc.
Arctic Circle Air Service, Inc.	Kupreanof Flying Service	Umiat Enterprises, Inc.
Baker Aviation, Inc.	Kusko Aviation, Inc.	Uyak Air Service
Bellair, inc.	L.A.B. Flying Service, Inc.	Vemair
Beluga Lake Float Plane Service	Larry's Flying Service, Inc.	Warbelow's Air Ventures, Inc.
Bering Air, Inc.	Loken Aviation, Inc.	Ward Air
Bran-Air & Branham Adventures	Lone Star Airlines, Inc.	Wings of Alaska
Camai Air	Lone Wolf Aero Services, Inc.	Woods Air Service, Inc.
Canning Air Service	Maritime Helicopters, Inc.	Wrangell Mountain Air, Inc.
Cape Smythe Air Service, Inc.	MarkAir, Inc.	Wright Air Service, Inc.
Cassaron Turbo Helicopters	Metroflight, Inc.	Yukon Helicopters
Chugiak Aviation	Midway Airlines, Inc.	Yutana Airlines, Inc.
Clearwater Air, Inc.	Midwest Express Airlines, Inc.	Yute Air Alaska, Inc.
Coastal Helicopters, Inc.	Misty Fjords Air & Outfitting	
Cordova Air Service, Inc.	Mountain Aviation	
CPA Air Service	Mountain Helicopters	Alaska Juneau Aeronautics, Inc.
Customized Alaskan Adventures	Nash West Aviation, Ltd.	Ken Bannon
Delta Connection	Natron Air	E. B. Freeman
Denali air	Nordic Air	A. Edward Jenner
Egli Air Haul, Inc.	North Star Air Cargo, Inc.	John McFarlane
Ellis Air Taxi, Inc.	Northern Air Cargo, Inc.	Kevin Thomas
Ellison Air, Inc.	Northwest Airlink	Pat Dempsey
ERA Aviation, Inc.	Olson Air Service, Inc.	P. Richard Steinman III
F.S. Air Service, Inc.	Pacific Wing, Inc.	
Fishing and Flying	Peninsula Airways, Inc.	
Fiskehawk Aero Service	Precision Valley Aviation, Inc.	
Forty (40)-Mile Air, Ltd.	Promech, Inc.	
Frontier Flying Service, Inc.	Ram Air, Inc.	
Golden Plover Air	Ray Atkins Registered Guide	
Grant Aviation, Inc.	Rediske Air, Inc.	
Great Northern Air Guides	Reeve Aleutian Airways, Inc.	
Gulf Air Taxi, Inc.	Regal Air	
Gulf Aviation, Inc.	Reid Air	
Gulkana Air Service, Inc.	Rust's Flying Service, Inc.	
	Ryan Air Service, Inc.	